Replying to Part I of Respondents' Brief on the defense of purchase from a licensee empowered to make and sell.

As to the contention that the sales to petitioner were outside of the license of the American Transformer Company.[1]

Respondents apparently place their main reliance on the assertion that in as much as the American Transformer Company was licensed to manufacture and sell the amplifiers under dispute only for certain specified uses to be set forth on "license notices" attached to the amplifiers upon their sale, that the licensee's sales with knowledge that other uses for the amplifiers were contemplated, made such sales *"in infringement of the patents"* and not *"under the patents."* On this assertion respondents build a most elaborate and extended argument. The want of merit in the contention and in the argument built thereon becomes apparent on but a moment's reflection.

In the first place, it emphasizes the fact that the distinction respondents seek to draw between the two conditions is not made to depend on any act of the licensee. The Transformer Company had the right to sell, and it would exercise that right in both instances in the identical manner and in every respect, viz.: by attaching the "license notice" as directed by the agreement. The ultimate determination of whether or not any particular sale would constitute a sale "in infringement of the patents" or a sale "under the patents," as contended by respondents, would depend *not* upon any act of the licensee but solely upon some subsequent act

[1] Respondents' brief, pp. 8-20.

of the *purchaser*. Very clearly the licensee was not required, nor would he be permitted by law, to police the purchaser's place of business in order to see that the purported "license notice" limitation on use was observed. The situation can be made very clear by a simple illustration. Let us assume that someone purchased an amplifier from the Transformer Company and told the Company at that time that it was to be used for radio broadcast reception (one of the alleged licensed uses). According to respondents' arguments, that would have constituted a proper sale *"under* the patents". Obviously, if the purchaser subsequent to his acquisition of the amplifier, proceeded to use it with motion picture equipment, that fact would not in any respect affect or alter the validity of the sale by the Transformer Company. Take the converse. Assume that this individual told the Transformer Company at the time of the purchase that he intended to use the amplifier in connection with motion picture equipment, and nevertheless the Transformer Company made the sale, and the purchaser subsequently did not use the amplifier with motion picture equipment, but, on the contrary, used it exclusively for radio broadcast reception. Under the respondents' argument that likewise would have constituted a legitimate sale "under the patents" because of its subsequent legitimate use.

These illustrations fittingly show, therefore, that the ultimate determination, under respondents' argument of whether or not the amplifier made and sold by one licensed to do so was within or without the purported restrictions of the "license" was dependent in no respect upon any action of the licensee, but solely upon the use to which the ultimate purchaser put the amplifier thereafter. It is clear, therefore, that "knowledge" on the part of the selling licensee has nothing whatever to do with the legal principles here

involved, and, at best, merely represents a mental attitude of no legal consequences. In other words, if the "license notice" were legally effective to bar other uses, the knowledge of the licensee that a purchaser intended not to abide by it would surely not destroy that effectiveness.

As a final illustration we present the third possible situation,—namely, where the purchaser acquires the amplifier from the American Transformer Company without being asked and without stating for what use it was to be put. Here, again, under respondents' argument, the sale would be proper as "under the patents", and here, again, according to respondents, an infringement of the patents could occur only depending upon the particular use to which the amplifier was to be put by the purchaser. This last example conclusively demonstrates that the only obligation assumed by the selling licensee with respect to the restriction on use which respondents here endeavor to foist upon the public, was the attachment of the alleged "license notice" to the amplifier when sold. The licensee performed its contract by affixing that "license notice" and thereby used the very means directed by the patentee to accomplish that result. What we have here said is, moreover, in strict accord with the ordinary rules governing the interpretation of contracts, and license agreements are contracts subject to those rules (*Wetherill* v. *Passaic,* Fed. Cas. #17,465; 6 Fisher 50 (1872)).

The practical construction put upon the agreement by the parties accords with the foregoing view. At page 10, note 1 of their brief, respondents quote a letter from their licensee to petitioner in November, 1928, in which the licensee plainly states that: "The only way which we can sell them" (the amplifiers) is by placing the license notice on the machines. At an earlier date, in September, 1927

(Vol. II, fol. 3642), the licensor wrote to the licensee in response to its inquiry with respect to the license notice restrictions that: "The net result of this is that if *anyone buys* a power supply or amplifier unit from you he may use it for a radio receiving set but he cannot use it for an electric phonograph, etc. * * *". This construction of the contract as given to the licensee is a clear indication that the sole concern of the licensor was the use of the article subsequent to its sale.

In this connection it is significant, as bearing on respondents' insincerity, that although the alleged infringement is based on the purported lack of authority of the licensee to make the sales it did make to the petitioner, that authority was never questioned by the patentee in any action either to cancel the Transformer Company's license or for infringement, or for damages for alleged breach of any covenant therein. Indeed, that license was permitted to run to its natural expiration. The Transformer Company was permitted to continue to make sales of the amplifiers to the petitioner long after this suit was instituted, and the royalties paid by the Transformer Company on these sales were retained for over a year after the commencement of this action. For respondents, then, to insinuate, as they do in various portions of the brief, that petitioner "connived" or "conspired" with the Transformer Company in purchasing these amplifiers, with no charge of that character ever having been made either in the pleadings or at the trial or on appeal, and with no finding whatsoever to that effect, is, apart from the inherent impropriety of such implications, an interesting commentary on the methods pursued by respondents in seeking to attain their ends.

Stripped of the verbiage and misinterpretation and misapplication of the authorities, the present effort of respon-

dents consists merely of an attempt to extend control by means of their patents over devices manufactured and sold under their patents after reaching the public in the ordinary channels of trade. The same efforts were made, and the same arguments advanced, time and time again, but only to meet defeat in this Court. We will not unduly extend this reply by renewed consideration of the authorities on this phase of the controversy which are fully discussed in petitioner's brief (pp. 34-39), but cannot pass without observation what must be respondents' deliberate beclouding of the issue by a misstatement of the facts and the law of *Mitchell* v. *Hawley*, 11 Fed. Cas. 883, affirmed 16 Wall. 544, upon which they rely.

Though respondents deal with *Mitchell* v *Hawley* at pages 16-19, and 29-31 of their brief, they nowhere say, what could have been easily gleaned from a reading of the case, that what Bayley, the licensee, there received was merely the grant of an exclusive *license to make and use* for a specified territory and for the remainder of the original patent term, *with no power of sale whatsoever.* (*Adams* v. *Burke*, 17 Wall. 453; *U. S.* v. *General Electric Co.*, 272 U. S. 476; 48 C. J., Section 408, p. 263). We look in vain throughout respondents' brief for that simple statement of fact. It is *that* distinction which runs throughout the cases and which respondents for some reason preferred not to observe. As the Circuit Court pointed out in the *Mitchell* case, in construing the contract that Bayley received (11 Fed. Cas. 883, 885):

> "An examination of this contract shows clearly that it was carefully drawn by the parties to guard against such a result. Nothing can be more evident than the purpose expressed in this instrument to put it out of the *power* of Bayley to give any title to the machines.

> The very act of sale was a violation of the contract and an act of infringement. * * *" (Italics by the Court.)

Clearly, therefore, if Bayley had received the power of sale he would have had powers enjoyed by a territorial assignee. There is no distinction to be drawn in this connection for the determination of the questions here involved between licensees with a power of sale and territorial assignees with a power of sale. They have one thing in common and that is the power of sale. Once that power is present and patented articles are sold thereunder, the purchaser takes free of any restrictions which the patentee may seek to impose under the patent law on patented articles after their sale, the patentee being relegated to the common law either to make or enforce whatever contractual obligations or conditions he may seek to impose on any of the parties to the transaction. That is precisely what this Court pointed out in *Mitchell* v. *Hawley* and it was so understood in its later decisions (*Adams* v. *Burke*, 17 Wall. 453; *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659; *U. S.* v. *General Electric*, 272 U. S. 476). Indeed, this Court in the *Keeler* case expressly refused to extend the doctrine of *Mitchell* v. *Hawley* to cover a case where there has been a sale by the patent owner or by one authorized by him to sell.

As to the public policy argument.[1]

Respondents assert that the public interest actually requires the enforcement of "license notice" restrictions on patented articles after their sale as against the purchasers owning those articles in order that "the public may acquire such devices freely" (Resp. brief, p. 24). This apparently

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[1] Respondents' brief, pages 23-25; 57-61.

innocuous statement takes on added significance when it is recalled that respondents, a powerful public utility, operate as well in other fields such as the talking motion picture industry in which they and petitioner are competitors, and that respondents, even during the period of time involved in the case at bar, have twice run afoul of the Anti-Trust laws.[1]

Respondents plead ignorance[2] of how they could accomplish the beneficent purpose of spreading their inventions throughout the country in the form of articles made under their patents, unless it be through the device of such "license notice" restrictions. However, nowhere in their brief do we find any recognition of the fact that there may be an entirely legal way under the common law by which the use of a patented device can be restricted after its sale, and that is, by a contract entered into between the seller—whether it be the patent owner or his licensee—and the purchaser (provided, of course, that such agreement is not otherwise violative of law). Not only was this method of effecting a restriction on use by contract known to respondents, but it was actually adopted and used by them in other instances (*Radio Corporation of America* v. *DeForest Telephone & Telegraph Co.*, 97 N. J. Eq. 37). However, neither respondents nor their associates in the so-called "Radio Trust" wanted to utilize that method in the present instance. To the contrary, they desired to establish a large number of manufacturing licensees from whom they could, and in fact have, collected annually millions of dollars as royalties—a matter of common knowledge. To accomplish this, obviously no impediment of sales was desirable. Free sales in large quantities was the objec-

[1] *Supra*, page 2.
[2] Respondents' brief, pp. 24; 55; 61.

tive. Conditional sales contracts, therefore, not only would impede the sales of the manufacturing licensees but also would have centered public and Congressional attention on such a vicious monopolistic practice of the "Radio Trust", the legality of the formation of which was anticipated would be, and in fact has been, attacked both by private interests and by the Government.[1] Therefore the effort was made by respondents to attain this result, viz.: a restriction on use on devices duly sold on the open market,—by the illegal method of attempting to extend the patent laws to do so.

Nor can respondents find support in the cases they cite in support of a purported public policy which would favor "license notice" restrictions under the patent law against purchasers of patented articles. The authorities to which they refer deal simply with the relations between licensor and licensee, with no purchaser of a patented article involved, or with cases arising under the general law in actions in equity.

So, in *Bement* v. *National Harrow Co.*, 186 U. S. 70, quoted at pages 25 and 57 of respondents' brief, the Court was concerned simply with an attempt in an ordinary action in equity to enforce covenants entered into in an agreement between a licensor and a licensee relating to certain patents therein mentioned. The case reached this Court on the charge that the contract involved a violation of the Anti-Trust laws and served as one of the precedents in *U. S.* v. *General Electric Co.*, 272 U. S. 476 in which this Court again held that in an action between the licensor and the licensee alone limitations would be enforced that would have no legal effect if the rights of purchasers of patented articles

[1] *Radio Corporation* v. *Lord*, 28 Fed. (2) 257, affirming 24 Fed. (2) 565; cert. denied 278 U. S. 648; on final hearing 35 Fed. (2) 962, affirmed in 47 Fed. (2) 606; cert. denied 283 U. S. 847.

had intervened. (See also the dissenting opinion in *Henry v. Dick*, 224 U. S. 61.)

In *Fred Waring* v. *WDAS Broadcasting Station, Inc.*, 35 U. S. Patent Quarterly 272 (Resp. brief, p. 61), and in *Waterson* v. *Irving Trust Co.*, 48 Fed. (2) 704 (Resp. brief, p. 63) no questions under the patent law were involved. They were both actions in equity under the general law and dealt simply with what have been occasionally recognized as exceptions to the general rule at common law that servitudes will not run with chattels after their sale. The exceptions in these cases were the protection of the right of privacy on the one hand, and the enforcement of a covenant to work a copyright on the other. Concededly, these cases can have no application to the case at bar which is concerned solely with an attempt to extend the statutory monopoly of a patent beyond the right granted by that statute.

The "general rule" upon which respondents rely.[1]

We suppose it a proper inference from respondents' sub-titles, viz. (1) "the general rule as stated by the authorities"; (2) "decisions applying the rule to restrictions upon the use of the patented device itself"; (3) "decisions of this Court establishing exceptions to the general rule"; (4) "the restriction in the instant case comes under the general rule and is enforceable";—that respondents are referring to some general rule of the patent law permitting restrictions to be enforced against purchasers of patented articles by means of a "license notice" device. There is no such rule; there are no authorities supporting it, nor decisions of this Court establishing exceptions to the rule, nor is the restriction in the instant case within any such supposed general

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[1] Respondents' brief, pp. 26-37.

rule. Indeed, respondents have constructed an edifice of unrealities.

Respondents predicate their whole argument as to the existence of this "rule", on *Bement* v. *National Harrow Co.*, 186 U. S. 70, which they quote immediately before entering upon a discussion of the question. As has been hereinabove observed,[1] that case dealt solely with the contract rights and obligations subsisting between licensor and licensee as the immediate parties thereto. The license sustained in the *Bement* case prohibited the licensee from selling at a lower price or on more favorable terms of payment and delivery to the purchasers than was set forth in a schedule attached to the license. These restrictions, of course, applied only as between the licensor and the licensee, and, as this Court said in that case, at page 93 of its opinion:

> "The provision in regard to the price at which the *licensee would sell* the article manufactured under the license was also a proper and reasonable condition. * * * The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it, or sell the *right* to manufacture and sell the article patented, upon the condition that the assignee shall charge a certain amount for such article."

The doctrine of this case, as respondents correctly state, was affirmed in *U. S.* v. *General Electric Co.*, 272 U. S. 476, but what this Court in both cases held valid was a restrictive covenant *between the immediate parties to the contract.* Neither case involved the rights of a purchaser, though this Court in its *General Electric* decision, in drawing the distinction between licensor and licensee relations on the one hand, and patentee (or licensee) and purchaser relations

[1] *Supra*, page 12.

on the other, summarized what it had previously held with respect to the rights of a purchaser of a patented article, in the following language (272 U. S. 476, 489):

> "it is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."

This statement by this Court is far removed from the assumed "general rule" asserted by the respondents, nor can they avoid the effect of what this Court has said on the subject by sweeping it aside,—as they attempt in their brief to do—as *obiter dicta* or mere expressions of general opinion.

Respondents can find no added support in their quotation from Robinson on Patents.[1] What the author said in the italicized portion, quoted by respondents, with respect to conditions that may be imposed by the patentee clearly refers to *contractual limitations or conditions.* That text was published in 1890, a few years prior to the decisions of this Court in *Hobbie* v. *Jennison,* 149 U. S. 355 and *Keeler* v. *Standard Folding Bed Co.,* 157 U. S. 659, although, of course, after the decision in *Adams* v. *Burke,* 17 Wall. 453 which had been decided in 1873. In the *Keeler* case this Court, on reviewing its earlier decisions on the subject, pointed out (157 U. S. 656, 666-667):

> "Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture *from one authorized to sell them* becomes possessed of an absolute property in such articles, unrestricted in time or place. *Whether a patentee may protect*

[1] Respondents' brief, p. 26.

himself and his assignees by special contracts brought home to the purchasers is not a question before us and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

We believe this quotation is indeed dispositive of respondents' contention.

(1) Cases relied on by respondents as establishing a "general rule".

Respondents rely upon six cases as purporting to support the general rule as respondents understand it to be, but on analysis it clearly appears that they are neither relevant nor do they state the principles accepted and applied by this Court in the "license notice" cases. To illustrate:

(1) In *Holiday* v. *Mattheson*, 24 Fed. 185 [1] where the facts were entirely unlike those in the case at bar, if the general language of the opinion as quoted by respondents "* * * where a license accompanies the transfer"—is to be taken to mean that restrictive conditions are good only in actual licenses as distinguished from sales, the statement need not be questioned. However, the Court predicated its views on *Hatch* v. *Adams*, 22 Fed. 434 which was expressly overruled in the *Keeler* case (*supra*). The facts disclose no sale with restrictive conditions attached.

(2) In *Dickerson* v. *Tinling*, 84 Fed. 192 [2] all that the Court held in substance was that the sale of articles in the United States under a United States patent cannot be controlled by foreign laws, a ruling based upon the analogous case of *Boesch* v. *Graff*, 133 U. S. 697.

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[1] Respondents' brief, p. 27.
[2] Respondents' brief, p. 27.

(3) *General Electric Co. v. Continental Lamp Works*, 280 Fed. 846[1] was concerned simply with a conceded infringement by a manufacturer who had made a gas filled lamp in direct violation of the patents of the General Electric Company but who claimed that the palpable infringement was nullified by his purchase of unpatented bases for the lamps from the patentee.

(4) At this juncture respondents again come forward with *Mitchell v. Hawley*, 16 Wall. 544,[2] arguing that the case illustrates the application of the rule to restrictions on use. Again, we reply that if respondents intend to convey by their statement that the case illustrates a limitation on the use of a device imposed upon a purchaser from a licensee who had the power of sale, we repeat that respondents are gravely in error. The facts show no such situation as claimed by respondents.

(5) In *Porter Needle Co. v. National Needle Co.*, 17 Fed. 536,[3] the Court again was concerned merely with a question of license and not one of sale. A written license had been granted to *use* certain machines for a fixed period. The Court restrained the *licensee* from use of the machines after the termination date fixed by the license, a ruling proper under the authority of *Mitchel v. Hawley*. The case is therefore not in point. It is interesting to note, however, that the Court there pointed out that the defendant knew that the plaintiff *licensed* but did not *sell*.

(6) In *Skee Ball Co. v. Cohen*, 286 Fed. 275,[4] all that can be gathered from the opinion is that the Court had to

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[1] Respondents' brief, pp. 27-28.
[2] Respondents' brief, pp. 29-30.
[3] Respondents' brief, pp. 31, 52-53.
[4] Respondents' brief, pp. 31-32.

deal with an ordinary *license agreement* under the terms of which the licensee was to *use* the device or to license others to use it within a designated territory. If that were so, the decision could have been put squarely on the authority of *Mitchell* v. *Hawley*, or, perhaps, the Court looked upon the transaction as a transfer of a business with a covenant not to engage in the same enterprise within a specific territory. Such a negative covenant, unless "it tends to a monopoly" has been long enforced (*U. S.* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 281-282), but has nothing to do with the claimed application of the patent law to restrictions imposed upon the use of patented articles after they have once been sold to the public. The irrelevancy, then, of this case to the one at bar must therefore be quite apparent.

(2) English authorities relied on by respondents.

Respondents' reliance on English cases upholding price fixing and other restrictions,[1] is of no avail in view of the directly contrary decisions of this Court.[2]

There is an obvious divergence between the English and our own Courts in the interpretation they give to the respective though similarly worded patent statutes of the two countries. This difference is alluded to in the opinions of the Justices of the High Court of Australia whose decision was overruled on appeal by the Privy Counsel in England (*National Phonograph Co.* v. *Menck*, 28 R. P. C. 229; the opinion below reported in 7 Comm. L. R. 481).

Apparently the English courts proceeded on the theory of separation of title from use in the case of a purchaser

[1] Respondents' brief, pp. 22-29.

[2] *Bauer* v. *O'Donnell*, 229 U. S. 1, *Straus* v. *Victor*, 243 U. S. 490, *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (Petitioner's brief, pp. 20-29). See also, dissenting opinion in the *Dick* case, 224 U. S. 1, 68.

of a patented device, a theory adopted in *Henry* v. *Dick*, 224 U. S. 1, by a four to three decision of this Court, but later expressly overruled in the *Motion Picture Patents* case. In that suit, the briefs reveal, that same contention was again made when the case reached this Court, but the argument was completely ignored and swept aside by this Court which affirmed the dismissal of the bill.

In concluding their discussion of these wholly irrelevant authorities, respondents quote at length from the opinion of this Court in *Independent Wireless Telegraph Co.* v. *Radio Corporation of America*, 269 U. S. 443, concededly a decision confined simply to a question of parties. Respondents, however, fail to introduce the quotation as this Court did, with the words; "The case made in the bill was this", —so as to make abundantly clear that what the Court said with reference to the facts of that case was but a paraphrase of the *pleading* and not even a suggestion, express or implied, of this Court's opinion on the subject.

As to respondents' contention that this Court has established "exceptions to the general rule".[1]

We look in vain for any statement by this Court in any of its opinions that it has ever established a rule that restrictions on a patented article will be enforced against the purchaser by an infringement suit under the patent law, or that this Court has ever created any exceptions to this rule. We are literally amazed at the suggestion.

On the contrary, this Court, particularly in the *Boston Store* case, reviewed its prior decisions on the subject and

[1] Respondents' brief, pp. 32-37.

concluded with a holding,—not that it had formulated any exceptions to its rules heretofore announced in those cases, —but that there was only one "fundamental ground upon which the decided cases must rest" (246 U. S. 8, 25). That fundamental ground, to quote the language of the Court, was that:

> "* * * a patentee could not use and exhaust the right to sell, as to which a monopoly was given him by the patent law, and yet by conditions and statements continue that law in effect so as to make it govern the things which by his voluntary act were beyond its scope * * *" (p. 23).

The fundamental ground common to the decided cases, some of which denied the possibility of projecting the monopoly right to sell, and others the possibility of projecting the monopoly right to use, over articles after sale, must be a denial of the right to apply the patent law to objects which by sale have passed beyond its scope. This *common* fundamental ground rising above mere questions of form, cannot be, as respondents contend, either the *particular* ground that price fixing is in itself unlawful, or the *particular* ground that the attempt to monopolize unpatented articles is in itself unlawful. The one thing common to them is that in both, what the patent owner sought to control lay outside of the monopoly. His sole recourse in such event, this Court said in the *Motion Picture Patents* case, is to the method of *special contract* but not to the patent law which permits no restrictions on patented articles after their sale. As this Court there held (243 U. S. 502, 509):

> "The extent to which the use of the patented machine may validly be restricted to specific supplies *or otherwise* by special contract between the owner of a pat-

ent and the purchaser or licensee is a question ~~de-cided under~~ outside the *patent law* and with it we are not here concerned (*Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659.)"

This Court again had occasion to review the question in *U. S.* v. *General Electric*, 272 U. S. 476, and reiterated what it had said in *Straus* v. *Victor*, 243 U. S. 490, that:

> "These cases really are only instances of the application of the principle of *Adams* v. *Burke*, 17 Wall. 453, 456."

How can it be said that *Bauer* v. *O'Donnell*, *Bobbs-Merrill* v. *Straus*, *Straus* v. *Victor* and *Boston Store* v. *American*, to which this Court referred in the foregoing quotation and in which the attempt was to restrict the resale prices by printed notice or contract, are each and all "only instances of the application of *Adams* v. *Burke*" if, as respondents contend, the principle of *Adams* v. *Burke* was that an *unrestricted* sale, meaning a sale without notice of restriction, and only such a sale, takes the article outside of the monopoly? What principle is there common to all these cases excepting the principle that the sale of a patented article takes it outside the monopoly, and terminates all patent-law relations between the buyer and the seller, whether the sale be without any notice of restrictions (*Adams* v. *Burke*) or with a restricted "license notice" marked on the article sold (*Bobbs-Merrill* v. *Straus*, *Straus* v. *Victor*, *Bauer* v. *O'Donnell*, and the case at bar), or with a restrictive contract, the validity of which depends upon the general law and not upon the patent law (*Boston Store* v. *American*)?

Thus, there emerges firmly out of these Supreme Court cases not an "exception" as respondents contend, but the

very simple rule that the sale of a patented article takes it outside of the patent monopoly, and that rule rises above any mere form in which it is attempted to project the patent monopoly beyond the sale.[1]

The vice in respondents' distortion of the meaning of the phrase "subject to which the monopoly no longer applied" which they cull from the *Motion Picture Patents* decision,[2] therefore becomes apparent. For, how can respondents seriously assert that that phrase refers merely to supplies for the patented machine, when the opinion of the Court places its ruling in that quotation on *Bauer* v. *O'Donnell* and *Straus* v. *Victor* which have nothing to do with supplies but merely with the general principle of law enunciated by the Court that patented articles after their sale are not subject to the patent monopoly.

As to respondents' characterizations of the doctrines applied by this Court in the cases relied on by petitioner, as merely "broad language".[3]

Respondents presumably consider that when this Court refused to extend the scope of the patent monopoly to control patented articles after their purchase and sale, it was merely creating "exceptions" to a "general rule". But, as we have hereinabove observed, this Court has never spoken of any such exceptions or ever mentioned any such general rule as argued by respondents to exist in the opinions of this Court. We therefore find it difficult to explain respondents' reference to the "broad language" of this

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[1] See petitioner's brief, pp. 22-29, for complete discussion of the cases.

[2] Respondents' brief, pp. 46-47.

[3] Respondents' brief, pp. 39-48.

Court, unless it be that this alleged "broad language" constitutes a statement of the rule which this Court has applied to cases of the general character of the one at bar and which respondents now find unsuited to their purposes.

The Court of Appeals below suggested that what respondents now call "broad language" was in truth merely "obiter" and "not necessarily controlling". It assigned as a reason that inasmuch as the decisions in *Bauer* v. *O'Donnell, Straus* v. *Victor, Boston Store* v. *American* and *Motion Picture Patents* v. *Universal* involved attempted restrictions which were bad on grounds of public policy, the holding of this Court in those cases that those restrictions were equally bad under the patent law,—the sole question presented for decision—must have been surplusage. Such reasoning, we have heretofore observed, is erroneous.[1]

As Chief Justice Taft said in *Richmond Co.* v. *U. S.*, 275 U. S. 331, 340:

> "* * * It does not make a reason given for a conclusion in a case obiter dictum that it is only one of two reasons for the same conclusion."

In *Myers* v. *U. S.*, 272 U. S. 106, 118, this Court held:

> "We are asked by the United States to treat the definite holding in *Marbury* v. *Madison* * * * as mere dictum—to disregard it. But a solemn adjudication by this Court may not be so lightly treated. * * * ".

And in *U. S.* v. *Title Insurance and Trust Co.*, 265 U. S. 472, 485, it was held:

> "Enough has been said to make it apparent that that case and this are so much alike that what was said

[1] Petitioner's brief, pp. 31-34.

and ruled in that should be equally applicable in this. But it is urged that what we have described as ruled there was *obiter dictum,* and should be disregarded, because the court there gave a second ground for this decision which was broad enough to sustain it independently of the first ground. The premise of the contention is right but the conclusion is wrong; for where there are two grounds, upon either of which an appellate court may rest its decision, and it adopts both, 'the rule on neither is *obiter,* but each is the judgment of the court, and of equal validity with the other' (citing cases)."

As to respondents' erroneous observation with respect to the extra-judicial comment quoted by petitioner.[1]

Respondents, in attempting to minimize the full effect of Professor Williston's comments with respect to the decisions of this Court voiding license notice restrictions on patented articles after their sale,[2] add quotations from other portions of his book relating solely to restrictive covenants affecting land or contracts relating to the sale of a business. Those cases quite obviously have nothing to do either with the type of action or the issues here involved.

Nor can respondents distort the plain meaning of what Professor Williston has said by injudicious use of quotation marks so as to create the utterly false impression that his understanding of the law on the subject is precisely opposite to what the language of his remarks indicates. Those comments by him were, in this instance, not his views, but simply his interpretation of what this Court has held in the *Straus* v. *Victor, Motion Picture Patents, Boston Store*

[1] Respondents' brief, pp. 49-53.
[2] Petitioner's brief, p. 30.

and *Carbice* cases. One of the authorities he cites as illustrative of what other Courts have recently stated with respect to their understanding of these decisions is so illuminating and exact a summary that it bears quotation at length. In *Chicago Daily News* v. *Kohler,* 196 N. E. 445, 449-450:

> "While a patentee may limit a license to making and using the patented article, he may sell it, and if he does, the sale places the article beyond his control as patentee. Thus, where a patentee manufactures the patented device and sells it he can exercise no future control over the article in the hands of the purchaser. Boston Store of Chicago *v.* American Graphophone Co., 246 U. S. 8, 38 S. Ct. 257, 261, 62 L. Ed. 551, Ann. Cas. 1918 C, 447; Keeler *v.* Standard Folding-Bed Co., 157 U. S. 659, 15 S. Ct. 738, 741, 39 L. Ed. 848; Adams *v.* Burke, 17 Wall. 453, 21 L. Ed. 700. The United States Supreme Court, in Keeler *v.* Standard Folding Bed Co., *supra,* said: 'One who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.' *Federal decisions denying the right of patent owners, in selling patented articles, to reserve control over the resale or use,* do not rest upon any mere question of the form of notice attached to the articles, or the right to control, solely by reference to such notice, but upon *the basic ground that the control of the patent owner over the articles in question ends with the passing of title.* Boston Store of Chicago *v.* American Graphophone Co., *supra.* 'By virtue of the patent law' the Court said in the case last cited: 'One who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied."

With respect to petitioner's reference to Professor Chafee.[1]

Respondents, in complaining that our quotation from Professor Chafee's remarks is not extensive enough, omit to say that it represents Professor Chafee's summary of his understanding of the law as laid down by these cases.

It is interesting to note that the author, in commenting upon the "license notice" cases decided by this Court, makes the significant statement (p. 1002) that "In this country the vital distinction is drawn when title to the article passes". As put by this Court in *U. S.* v. *United Shoe Machinery Co.*, 247 U. S. 32, 58, a patentee "cannot grant the title and retain the incidents of it".

Throughout their brief respondents disregard this essential distinction. In their quotations from the opinions of this Court in which reference is made to "unconditional sales" they repeatedly overlook the fact that what was meant was a transaction in which title did not pass.[2] Conditional sales are well known to the law as meaning only those in which title does not pass until the occurrence of a certain event. This Court treats the "license notice" cases before it on the principle that conditions cannot attach to an *absolute* sale but recognized that if the patentee or his licensee so desire they may contract *specially* with respect to any conditions desired to be imposed on purchasers. Such contractual limitations are, however, as this Court has repeatedly held, entirely outside of the scope of the patent law.[3]

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[1] Respondents' brief, p. 30.

[2] Respondents' brief, p. 46, note 1.

[3] *Hobbie* v. *Jennison,* 149 U. S. 355, 363; *Keeler* v. *Standard Folding Bed Co.;* 157 U. S. 659, 661.

Conclusion.

The decision of the Court of Appeals below was in error and should be reversed, and the cause remanded to the District Court for the Southern District of New York, with instructions to dismiss the Bill of Complaint.

Respectfully submitted,

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